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SUBJECT: DOW'S BILLION-DOLLAR PETROCHEMICAL JOINT VENTURE:
KUWAIT'S LARGEST FOREIGN INVESTMENT

11. (SBU) Summary: In a December 16 meeting with econoff, Kuwait Petroleum Corporation (KPC) CEO Saad Al-Shuwaib told econoff that a newly announced joint venture between state-owned KPC subsidiary Petrochemicals Industries Company (PIC) and U.S.-based Dow Chemical Company represents Kuwait's largest ever foreign investment and a key opportunity for Kuwait to diversify its economy, expand its presence in high-growth emerging markets, maximize the value of its hydrocarbon resources, and create jobs for Kuwaitis. The 50-50 JV will be modeled on the success of PIC's Kuwait-based Equate joint venture with Dow but will have a more international orientation. Al-Shuwaib expects the company, headquartered in the U.S., to be established in late 2008 with about 5,000 employees and projected revenues of about USD 11 billion. This company will partner with Sinopec and possibly Shell in a USD 5 billion refinery and petrochemical complex in China's Guangdong province, a project approved the Chinese government during Shuwaib's recent visit to China. Al-Shuwaib said the new venture will overtake Saudi Arabia's SABIC to become the world's largest petrochemical company. KPC is also separately exploring a possible joint venture with Reliance Industries for a refinery in India. End Summary.

KPC CEO returns from fruitful Asian tour

12. (SBU) On December 16, Econoff met with KPC CEO Al-Shuwaib, who had just returned from a two-week tour of China, India, Vietnam, Japan, Korea, Singapore, and Taiwan to meet with customers and explore investment opportunities. (Note: Japan and Korea are the largest customers for Kuwaiti crude, and KPC's growth strategy is clearly oriented towards Asian markets.) Al-Shuwaib highlighted the recent announcement of the approval by the Chinese government for KPC and Dow, in partnership with Sinopec and probably Shell (or possibly BP), to build the USD 5 billion 250,000 b/d Nansha refinery and ethylene plant in China's Guangdong province that will process 100% Kuwaiti crude. Al-Shuwaib also confirmed press reports that KPC has begun talks with Reliance Industries about a joint venture to build a new refinery and petrochemical plant in India, saying he was optimistic that a deal would be reached in 2008.

Details of the JV

13. (SBU) Announced publicly on December 13, the new 50-50 joint venture between PIC and Dow to be established in 2008 will be headquartered in the United States and employ about 5,000 people including staff from each of the parent

companies. It will manufacture and market polyethylene, ethylenamines, ethanolamines, polypropylene, and polycarbonate. To create the company, Dow is selling PIC portions of its production facilities in Alberta, Canada; Bahia Blanca, Argentina; and Tarragona, Spain for USD 9.5 billion, 50 per cent of the asset value of the new venture. Production units in Texas and Louisiana are also expected to be included. Projected revenues for the first year of operations are projected to be USD 11 billion, and the JV will responsible for building and operating the Nansha refinery/petrochemical project in China.

Significance for Kuwait

14. (SBU) This deal represents Kuwait's largest foreign investment to date. It gives Kuwait an opportunity to diversify its economy (somewhat) away from its overwhelming dependence on crude oil exports while maximizing the value of the country's hydrocarbon resources through the production and marketing of value-added products. It gives KPC/PIC access to Dow's world-class technology, expertise, and international presence, especially in emerging markets. PIC CEO Maha Mulla Hussain is quoted in a press release as saying, "This will give the new JV company the distinct advantage of full integration from feedstocks to derivatives while meeting growing customer demand in emerging markets." All of the new facilities created under this venture will also create reliable downstream markets for Kuwaiti hydrocarbon feedstock. Of course, the creation of new jobs for Kuwaitis is also an important benefit as the GOK struggles to create new public sector positions for a fast-growing Kuwaiti labor force. It is still unclear how many Kuwaitis would actually be employed by the JV.

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Significance for Dow

15. (SBU) For Dow, the venture provides a reliable supply of relatively cheap feedstock and reduces the company's exposure to the volatile commodities end of the petrochemical business. Dow's press release also alludes to the benefits of reduced capital intensity (per Dow's "asset-light" strategy) and an infusion of cash to make new acquisitions at the market-facing specialty chemicals end of the petrochemicals value chain.

JV builds on success of existing Dow-KPC partnership

16. (SBU) The new JV will be buildupon the successful model of Dow and PIC's Kuwait-based Equate joint venture. Equate, the first major joint venture undertaken by KPC, was started in 1995 by PIC and Union Carbide, which was subsequently acquired by Dow in 2001, to produce ethylene, polyethylene, and ethylene glycol. The venture has been a major success story for Kuwait, creating hundreds of jobs and billions of dollars in revenue since it became operational in 1997. Revenues reach USD 986 million and net profits reached USD 566 million in 2006. Equate is currently undergoing a USD 2 billion expansion to create new aromatics and olefins production facilities.

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